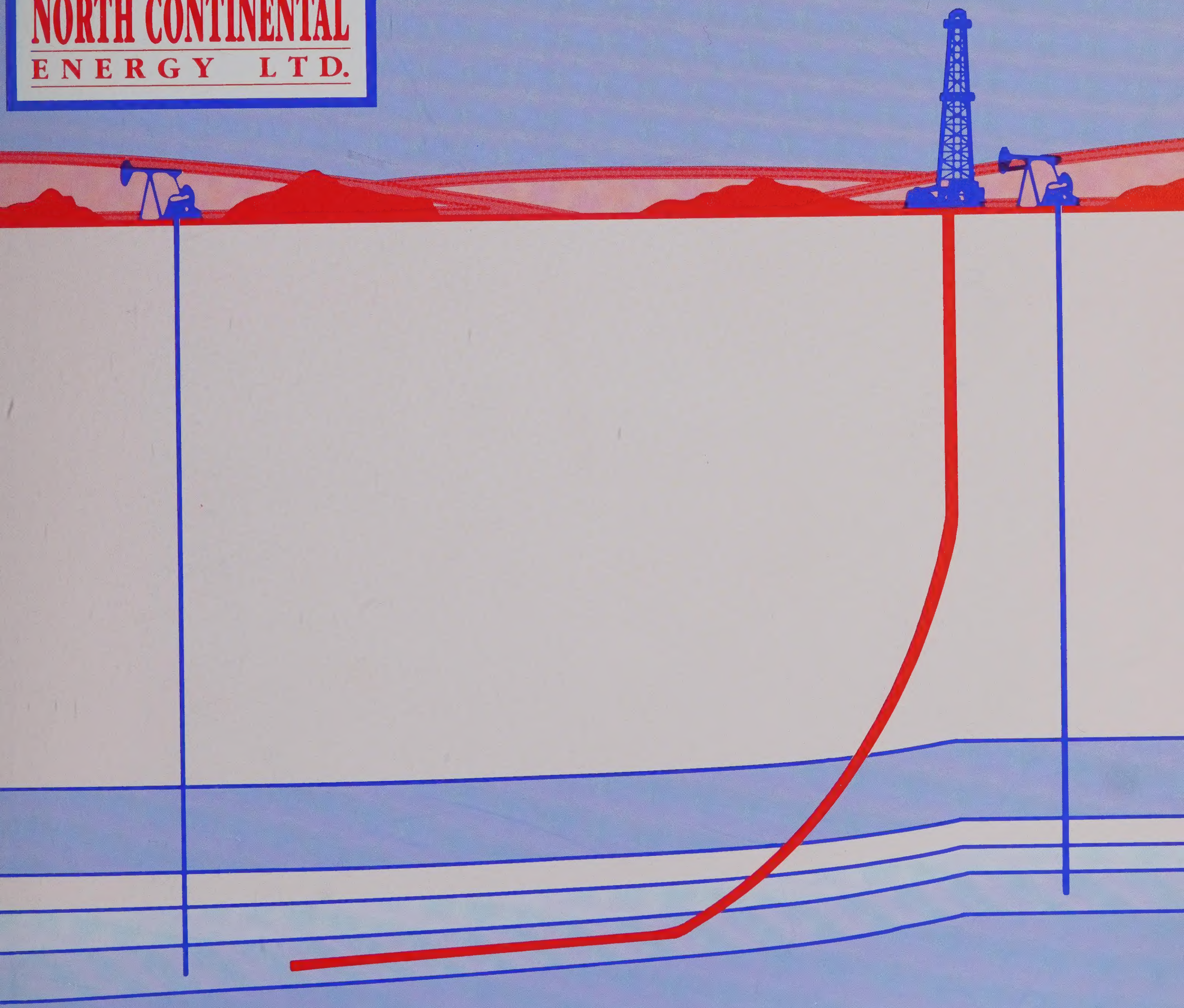
NORTH CONTINENTAL
ENERGY LTD.



1990 ANNUAL REPORT

NORTH CONTINENTAL ENERGY LTD.

CORPORATE PROFILE

North Continental Energy Ltd. (NCL - ALBERTA) is a publicly traded oil, gas and mineral exploration and production company based in Lethbridge, Alberta. The largest shareholder, Gyron Petroleums Ltd., has 24% of the outstanding shares.

The Company was incorporated in Alberta in 1938 as North Continental Oil and Gas Corporation Ltd. In 1986 the common shares were consolidated on a one for four basis and the name was changed to North Continental Energy Ltd.

The Company has oil and gas properties in Alberta, Saskatchewan and Manitoba and mining properties in the Northwest Territories and Arizona.

Part of the Hastings, Saskatchewan Battery

Cover: The cover is an illustration of the Horizontal Drilling Technology used in four of the Company wells drilled in 1990. Special drilling tools are required to make the curve and the horizontal section. The curve is so gradual that the casing and tubing can be run to the horizontal section. Thanks to Wendy Lomnes of Co-enerco for the cover concept.

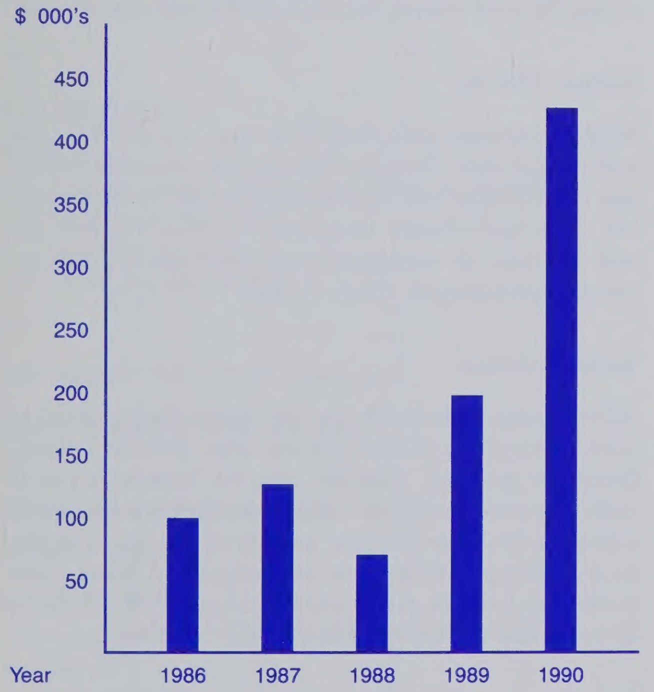
NORTH CONTINENTAL
ENERGY LTD.

PRESIDENT'S REPORT

To the Shareholders:

We are happy to report a 112% increase in gross revenues from oil and gas sales for the year ending December 31, 1990 compared to 1989. Average daily oil and gas production in 1990 doubled over the previous year. Average daily oil equivalent production is now approximately 100 barrels per day.

OIL & GAS SALES



North Continental continued a very successful drilling program in 1990, participating in the drilling of six wells and completing six for a 100% success rate. Four of these wells are horizontal wells which are more expensive to drill and complete. However, they have the expected benefits of improved return on investment, improved production, lower cost per barrel and increased recoverable reserves.

We are certain that our oil reserves have increased significantly this last year. Engineering studies have been delayed because without some production history from the major new wells, the studies would be premature. We hope to have the results of the Hastings area study available before the annual meeting.

Our Company land position continues to improve. The following chart shows our holdings in petroleum and natural gas leases as at March 31, 1991.

	Gross Acres	Net Acres
Alberta	7,840	2,841
Saskatchewan	7,713	1,429
Manitoba	5,661	677
Totals	21,214	4,947

Mining activities in the Northwest Territories have slowed considerably. Any further development on our properties there is not expected until the price of gold reaches the $425 per ounce level.

The following is an update on our major projects:

Hastings, Saskatchewan:

Two horizontal wells were completed last year and a third was put on production in March, 1991. Additional acreage was added recently and we now hold 2513 gross acres (303 net) in the Hastings field. We now have five vertical and three horizontal wells on production. Our Company share of the average daily production is now approximately 70 barrels. More wells are planned for later this year.

Gainsborough, Saskatchewan:

The Company farmed out 50% of its interest in the Gainsborough West Unit (400 acres) in return for the financing of the water flood program in the unit and the drilling of a horizontal well (16-22-2-31 W1M). The horizontal well was successfully completed and has averaged over 300 barrels of oil per day. Indications are that the water flood program (currently injecting 1800 barrels of water per day) is increasing field pressures. It is expected that production in all seven wells will increase as field pressures approach original values.

We now have 2080 gross acres (288 net) of leases in the Gainsborough area. A vertical well, outside the unit boundary, is planned for summer, 1991.

NORTH CONTINENTAL
ENERGY LTD.

PRESIDENT'S REPORT

Cantal, Saskatchewan:

North Continental participated in the drilling of a horizontal well (3-12-5-34 W1M) on a 160 acre lease just east of our Hastings field. Our Company took 10% of the project on a 100% to earn 50% basis. We also purchased a 5% interest in a water injection well and treating facility on the same section. Although this new well produces at a very high water cut, the daily oil production is over 100 barrels.

The Company earned the right to a 5% participation in the drilling of a second horizontal well in the northwest quarter of the same section. It is expected that this new well will be drilled this summer.

Drilling the Cantal Horizontal Well

Pierson, Manitoba:

We have acquired 1520 acres (304 net) of oil and gas leases in the southwest corner of Manitoba. Siesmic data has been purchased and analyzed. A well will be drilled on the acreage as soon as funds are available for the project.

Black Butte, Alberta:

A two mile pipeline connecting our gas well (6-32-1-8 W4M) to the Canadian Montana Gas system was completed last summer. The well was on production for seven months beginning in September 1990 and is now shut in for the summer. We have a 15% gross over-riding royalty on production which is convertible to a 40% working interest after payout. Production averaged 285 MCF/day. We now have 1760 acres (920 net) of leases adjacent to good oil production and since a farm in option fell through last fall, we have been looking for an acceptable joint venture partner to drill a well this summer.

Hanna, Alberta:

North Continental has a 16.884% interest in a dual zone gas well and gas plant (2-36-31-14 W4M). The remaining percentage in the project was recently purchased by Canor Energy Ltd. from Gulf Canada Resources Inc. Since the sale, the well has been on continuous production due to more aggressive marketing by Canor Energy.

Yuma, Arizona:

All extraction methods tried to date by the King of Arizona Joint Venture have yielded gold and silver from the tailings. Quantities produced, however, have not been sufficient to make operations profitable. Results are expected soon from a three day bulk sample pilot test which was run in March by A. F. Budge (Mining) Ltd. of Scottsdale, Arizona. Gold production from the placer deposits began in March and it is hoped that returns will match earlier test results.

H. Gordon Oliver
President
April 16, 1991

NORTH CONTINENTAL
ENERGY LTD.

BALANCE SHEET

December 31, 1990	1990	1989
ASSETS		
CURRENT		
Cash	$ —	$ 4,612
Accounts receivable	64,007	83,315
Income taxes recoverable	—	23,021
Alberta Royalty Tax Credit	4,378	8,393
	68,385	119,341
PROPERTY AND EQUIPMENT (note 2)	1,904,956	1,487,103
	$ 1,973,341	$ 1,606,444
LIABILITIES		
CURRENT		
Cheques issued in excess of funds on deposit	$ 10,326	$ —
Bank loan (note 3)	380,000	160,000
Accounts payable	61,008	21,449
Notes payable (note 8)	80,198	18,469
	531,532	199,918
DEFERRED REVENUE (note 4)	47,704	54,329
DEFERRED INCOME TAXES	112,970	90,165
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Authorized		
20,000,000 common shares, no par value		
Issued		
2,087,197 common shares (note 6)	843,549	843,549
CONTRIBUTED SURPLUS (note 7)	148,860	148,860
RETAINED EARNINGS (note 7)	288,726	269,623
	1,281,135	1,262,032
	$ 1,973,341	$ 1,606,444

Approved by the Board

Director

George Dafan Director

NORTH CONTINENTAL ENERGY LTD.

STATEMENT OF INCOME

Year Ended December 31, 1990	1990	1989
REVENUE		
Natural gas and oil sales	$ 434,548	$ 204,965
Less: Royalties	(46,366)	(30,692)
Add: Alberta Royalty Tax Credit	4,378	8,393
Interest and other	4,285	30,711
	396,845	213,377
EXPENSES		
Salaries	103,522	105,000
Bank charges and interest	44,022	4,577
Operating costs	61,586	51,509
Geological	4,054	10,252
General and administrative	46,802	63,648
Leases	13,032	4,555
Depreciation and depletion	81,920	51,016
	354,938	290,557
INCOME (LOSS) FROM OPERATIONS	41,907	(77,180)
Gain on sale of investments	—	59,993
INCOME (LOSS) BEFORE INCOME TAXES	41,907	(17,187)
INCOME TAXES (note 5)		
— current (recovered)	—	(23,021)
— deferred	22,804	18,455
	22,804	(4,566)
NET INCOME (LOSS)	$ 19,103	$ (12,621)

STATEMENT OF RETAINED EARNINGS

December 31, 1990	1990	1989
RETAINED EARNINGS, BEGINNING OF YEAR AS RESTATED (note 7)	$ 269,623	$ 282,244
NET INCOME (LOSS)	19,103	(12,621)
RETAINED EARNINGS, END OF YEAR	$ 288,726	$ 269,623
EARNINGS PER COMMON SHARE		
Basic	$ .009	$ (.006)
Fully diluted	$ .007	$ (.005)

NORTH CONTINENTAL ENERGY LTD.

STATEMENT OF CHANGES IN CASH POSITION

Year Ended December 31, 1990	1990	1989
OPERATIONS		
Cash from operations		
Net income (loss)	$ 19,103	$ (12,621)
Add items not requiring (providing) funds		
Depreciation and depletion	81,920	51,016
Deferred income taxes	22,804	18,456
Gain on sale	—	(59,993)
	123,827	(3,142)
Net changes in non-cash working capital items related to operations (note A)	147,633	(42,776)
	271,460	(45,918)
FINANCING		
Repayment of debt (net)	(6,625)	(12,581)
Proceeds from sale of investments	—	471,000
Proceeds from sale of fixed assets	40,054	—
	33,429	458,419
INVESTING		
Purchase of fixed assets	(539,827)	(648,135)
INCREASE (DECREASE) IN CASH	(234,938)	(235,634)
CASH (DEFICIENCY), BEGINNING OF YEAR	(155,388)	80,246
CASH (DEFICIENCY), END OF YEAR	$ (390,326)	$ (155,388)

NOTE A: NET CHANGES IN NON-CASH WORKING CAPITAL ITEMS RELATED TO OPERATIONS

	1990	1989
Accounts receivable	$ 19,308	$ (39,193)
Alberta Royalty tax credit	4,015	18,190
Income taxes recoverable	23,021	(23,021)
Accounts payable	21,091	25,996
Income taxes payable	—	(24,748)
Notes payable	80,198	—
	$ 147,633	$ (42,776)

NORTH CONTINENTAL
ENERGY LTD.

AUDITOR'S REPORT

To the Shareholders of North Continental Energy Ltd.

I have audited the balance sheet of North Continental Energy Ltd. as at December 31, 1990 and the statements of income, retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1990 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

DOUGLAS E. MUNTON PROFESSIONAL CORPORATION
Chartered Accountant

Lethbridge, Alberta
April 2, 1991

NOTES TO FINANCIAL STATEMENTS

December 31, 1990

1. ACCOUNTING POLICIES

North Continental Energy Ltd. is a public company which is incorporated under the Alberta Business Corporations Act. These financial statements are prepared in accordance with generally accepted accounting principles. The more significant accounting policies are:

Petroleum Properties

The company uses the full cost method of accounting for oil operations whereby all costs of exploring for and developing oil reserves are capitalized. Such costs include land acquisition costs, geological and geo-physical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and related interest and general and administrative expenses. These costs are depleted using the unit-of-production method based on estimated proven oil reserves. In determining the appropriate depletion rate the company considers the net book value of its oil reserves, as well as estimated future costs to be incurred.

Proceeds from the sale of oil and gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion and depreciation.

The company carries its petroleum properties at the lower of capitalized cost or estimated net recoverable value. Estimated net recoverable value is the aggregate of future net revenues from proven reserves plus undeveloped properties valued at cost net of any impairment. Future net revenues are determined using year-end prices and costs from production of proven reserves.

NORTH CONTINENTAL
ENERGY LTD.

NOTES TO FINANCIAL STATEMENTS

Mining Properties

It is the company's policy to defer all expenditures related to the exploration for and development of mining properties, pending the determination of the economic viability and full scale operation of the project. Costs related to projects terminated or abandoned are written off: costs related to a successful project are capitalized and amortized over the estimated useful life of the project.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is calculated using the straight line method at the following rates:

Oil and gas equipment	5% - 15%
Office equipment	15%

Foreign Currency Translation

(i) Monetary assets and liabilities at year end rates;
(ii) All other assets and liabilities at historical rates; and
(iii) Revenue and expense transactions at the average rate of exchange prevailing during the year.

Joint Venture

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Earnings Per Share

Earnings per share is calculated using the weighted average number of shares outstanding. The exercise of common share purchase options would not have a dilutive effect on earnings per share.

Income Taxes

The company records income taxes on the tax allocation basis. Under this method, income taxes relating to earnings currently recognized for accounting purposes but deferred for income tax purposes are fully provided for.

2. PROPERTY AND EQUIPMENT

	1990			1989
	Cost	Accumulated Depreciation	Net	Net
Oil and gas properties	$ 918,381	$ 133,910	$ 784,471	$ 549,200
Oil and gas equipment	377,289	135,724	241,565	122,251
Mining properties	865,532	—	865,532	799,248
Office equipment	19,899	6,511	13,388	16,404
	$ 2,181,101	$ 276,145	$ 1,904,956	$ 1,487,103

3. BANK LOAN

	1990	1989
Bank loan — prime plus 1.5% payable on demand	$ 100,000	$ —
Revolving Term Loan — prime plus 1.5% payable on demand	280,000	160,000
	$ 380,000	$ 160,000

The loans are secured by a general assignment of book debts, a debenture at prime plus 1.5% for $300,000 covering all assets and a general security agreement covering all assets other than land.

4. DEFERRED REVENUE

Deferred gas revenue consists of amounts received under take-or-pay gas contracts and will be recognized as revenue when the related product is delivered to the purchaser.

NOTES TO FINANCIAL STATEMENTS

5. INCOME TAXES

The following table reconciles the difference between the recorded income tax expense and the expected tax expense obtained by applying the basic tax rate to income before income taxes.

	1990	1989
Income (loss) before income taxes	$ 41,907	$ (17,187)
Corporate tax rate	46%	46%
Expected income tax expense (recovery)	19,277	(7,906)
Add (deduct) the income tax effect of:		
Royalties to provincial governments	5,540	5,148
Gain on sale of investments	—	1,914
Other	—	139
Alberta royalty tax credit	(2,011)	(3,861)
Actual income tax expense (recovery)	$ 22,804	$ (4,566)

6. SHARE CAPITAL

	1990	1989
Shares issued to shareholders	2,087,197	2,074,097

During 1989, stock options in the amount of 70,000 shares at $.45 each were granted to each of the senior management exercisable by November 29, 1994.

During 1990, stock options in the amount of 97,500 shares at $.45 each were granted to the other directors exercisable by May 31, 1995.

There are 2,060,791 shares of North Continental Oil and Gas Corporation Limited outstanding which are convertible to 515,197.75 shares of North Continental Energy Ltd.

7. PRIOR PERIOD ADJUSTMENT

During the year it was determined that the cancellatiion of 357,500 treasury shares for $115,937 in 1989 should be reflected as an increase in contributed surplus rather than retained earnings. This change has been reflected retroactively in the 1989 figures.

8. RELATED PARTY TRANSACTIONS

During the year, the company borrowed funds from a related party in the amount of $55,000 at an interest rate of prime plus 1½%. This unsecured note is classified as a current liability as repayment is expected to occur during the current year.

9. COMMITMENT

The company leases office space in Lethbridge, Alberta under a long term operating lease which expires December 31, 1993, the annual rental for which is $22,230 plus a portion of the property taxes, fire insurance and other triple net costs.

10. COMPARATIVE FIGURES

Certain 1989 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1990.

NORTH CONTINENTAL
ENERGY LTD.

CORPORATE INFORMATION

DIRECTORS:
Howard H. H. Oliver, *Chairman*
H. Gordon Oliver
A. Stuart Cameron
Donald R. Oliver
George Isfan

OFFICERS:

H. Gordon Oliver, *President*
Donald R. Oliver, *Secretary Treasurer*

AUDITOR:

Douglas E. Munton Professional Corporation
Lethbridge, Alberta

STOCK EXCHANGE:

Alberta Stock Exchange
Symbol — NCL

ANNUAL MEETING:

2:00 p.m., May 30, 1991
104, 1410 Mayor Magrath Drive
Lethbridge, Alberta

HEAD OFFICE:

104, 1410 Mayor Magrath Drive
Lethbridge, Alberta
Canada. T1K 2R3
Phone (403) 328-4010
Fax (403) 327-9813

TRANSFER AGENT:

Central Guaranty Trust Company
200, 104 - 4 Ave. S.E.
Calgary, Alberta
T2G 0C4

BANKER:

Alberta Treasury Branch
Lethbridge, Alberta

SOLICITORS:

Paterson North
Lethbridge, Alberta

Atkinson, McMahon
Calgary, Alberta

PRINTED IN CANADA
ROBINS SOUTHERN, LETHBRIDGE

NORTH CONTINENTAL
ENERGY LTD.

1990 ANNUAL REPORT